

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2005

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

JUNE 30, 2005

TABLE OF CONTENTS

	Page No.
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-8
Basic Financial Statements:	Exhibit
Business Type Activities Financial Statements:	
Statement of Net Assets	A 9
Statement of Activities	B 10
Proprietary Fund Financial Statements:	
Statement of Net Assets	C 11
Statement of Revenues, Expenses and Changes in Fund Net Assets	D 12-13
Statement of Cash Flows	E 14-15
Notes to Financial Statements	16-23
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - Proprietary Funds	24
Budget to GAAP Reconciliation	25
Notes to Required Supplementary Information - Budgetary Reporting	26
Other Supplementary Information (Unaudited)	Schedule
Electric Fund Sales Analysis	1 27
Electric Fund Comparative Statistical Data - KWH Produced and Purchased and KWH Sold and Lost	2 28
Water Fund Comparative Statistical Data - Water Sold and Water Pumped	3 29
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	30-31
Schedule of Findings	32-33

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

OFFICIALS

JUNE 30, 2005

Board of Trustees serving from January 1, 2005 through December 31, 2005

Name	Title	Term Expires
-----	-----	-----
Charles Zahn	Chairman	12/31/07
Doug Farley	Secretary	12/31/10
Dennis Regal	Trustee	12/31/09
Craig Strutt	Trustee	12/31/09
Mike Eilers	Trustee	12/31/05

Board of Trustees serving from January 1, 2004 through December 31, 2004

Name	Title	Term Expires
-----	-----	-----
Charles Zahn	Chairman	12/31/07
Doug Farley	Secretary	12/31/04
Dennis Regal	Trustee	12/31/09
Craig Strutt	Trustee	12/31/09
Mike Eilers	Trustee	12/31/05

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
McGregor Municipal Utilities
McGregor, Iowa

We have audited the accompanying financial statements of the McGregor Municipal Utilities (Electric and Water Enterprise funds) of McGregor, Iowa, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the City of McGregor, Iowa, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Electric and Water Enterprise funds and do not purport to, and do not, present fairly the financial position of the City of McGregor, Iowa, as of June 30, 2005, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric and Water Enterprise funds of the City of McGregor, Iowa, as of June 30, 2005, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2005, on our consideration of the McGregor Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 and budgetary comparison information on pages 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the city's business type activities. The accompanying other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion labeled as "unaudited", which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa
August 18, 2005

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

MANAGEMENT'S DISCUSSION AND ANALYSIS

McGregor Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Utilities' net assets decreased by \$2,580 throughout the year's operation to \$690,687.
- During the year, the Utilities' expenses were \$631,851.
- The Utilities' service revenues for the year were \$616,270.
- The Utilities also recorded unrestricted investment earnings of \$4,592.
- The Water Fund reported a net result of income and expenses of \$(10,427).
- The Electric Fund reported a net result of income and expenses of \$7,847.
- The resources available for appropriation were \$22,534 less than budgeted for the Utilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Utilities.

- The first two statements are *business type activities* financial statements that provide both long-term and short-term information about the Utilities' overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Utilities' government, reports the Utilities' operations in more detail than the government-wide statements
 - Proprietary fund statements offer short- and long-term financial information about the activities the Utilities operates like businesses.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 summarized the major features of the *business type activities* financial statements, including the portion of the Utilities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of McGregor Municipal Utilities Business Type Activities
and Fund Financial Statements

	Business Type Activities	Fund Statements
		Proprietary Fund
Scope	Business type activities	Activities the Utilities operate similar to private businesses
Required financial statements	Statement of Net Assets Statement of Activities	Statement of Net Assets Statement of Revenues, Expenses, and Changes in Fund Assets Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Business Type Activities

The business type activities financial statements report information about the Utilities as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Utilities' assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two business type activities statements report the Utilities' net assets and how they have changed. Net assets - the difference between the Utilities' assets and liabilities - is one way to measure the Utilities' financial health, or position.

- Over time, increases or decreases in the Utilities' net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Utilities you need to consider additional nonfinancial factors such as changes in the Utilities' rates and the condition of the Utilities' equipment.

Fund Financial Statements

The fund financial statements provide more detailed information about the business type activities. Funds are accounting devices that the Utilities use to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Utilities Board establishes other funds to control and manage money for a particular purpose or to show that it is properly using certain monies.

The Utilities has one kind of fund:

- *Proprietary fund* - Services for which the Utilities charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information
 - In fact, the Utilities' enterprise funds (one type of proprietary fund) are the same as its business type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE UTILITIES AS A WHOLE

Net Assets

The Utilities' combined net assets decreased by \$2,580 throughout the year's operation to \$690,687. This includes \$4,592 of unrestricted investment earnings.

Changes in Net Assets

The Utilities' total revenues (charges for services) during the year were \$616,270. Virtually all of the Utilities' revenue comes from user fees. The cost of electricity from their wholesaler was increased by 12.8% therefore their electric user fees were increased by 7.7%.

FINANCIAL ANALYSIS OF THE UTILITIES FUNDS

Summary and Analysis of Business Type Activities

The Utilities has produced business type activities financial statements using the Accrual Basis of accounting and economic resources measurement focus. The following tables present condensed information in net assets and changes in net assets for the years ended June 30, 2005 and 2004.

	Business Type Activities		Total
	2005	2004	Percentage Change
Assets:			
Current assets	\$ 511,723	\$ 484,675	5.6%
Capital assets	227,760	252,797	(9.9%)
Total Assets	\$ 739,483	\$ 737,472	.3%
Total Liabilities	\$ 48,796	\$ 44,205	10.4%
Net Assets:			
Investment in capital assets, Net of depreciation	\$ 227,760	\$ 252,797	(9.9%)
Unrestricted	462,927	440,470	5.1%
Total Net Assets	\$ 690,687	\$ 693,267	.4%

The amount by which the Utilities' assets exceed its liabilities is called net assets. At year end, the Utilities' assets were \$690,687. Of that amount, approximately \$227,760 was invested in capital assets, net of depreciation related to those assets. The remaining \$462,927 was unrestricted and available for future use as directed by the Board of Trustees.

	Business Type Activities		Total
	2005	2004	Percentage Change
Revenues:			
Charges for service	\$ 616,270	\$ 577,025	6.8%
Miscellaneous income	8,409	10,123	(16.9)%
Interest earned	4,592	4,453	3.1%
Total Revenues	\$ 629,271	\$ 591,601	6.0%
Business Type Activities Expenses:			
Electric	\$ 564,208	\$ 527,882	6.9%
Water	67,643	46,870	44.3%
Total Business Type Activities Expenses	\$ 631,851	\$ 574,752	9.9%
Increase (Decrease) in Net Assets	\$ (2,580)	\$ 16,849	(115.3%)
	=====	=====	=====

Individual Major Business Type Fund Analysis

- The Water Fund cash balance decreased by \$3,448 to \$74,485, due primarily to flat water sales and increase of expenditures over the prior year.
- The Electric Fund cash balance decreased by \$2,391 to \$108,824, due primarily to increase in electric sales and a like increase in the purchase of power and an increase in expenditures over the prior year.

Budgetary Highlights

The Utilities does not keep a separate budget; their budget is four line items on the City Budget, revenue for the Water and Electric with an expense for each also. The Utilities acknowledged \$27,126 less in charges for services than what was budgeted, and \$6,833 more of business type activities disbursements. The Utilities received \$4,592 of investment earnings that was not budgeted for the year. Leaving the net effect of a deficiency of receipts and other financing sources under disbursements and other financing uses of \$29,367. Over the course of the year, the Utilities Board did not revise the budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005, the Utilities had invested \$1,487,133 (\$227,760 net of accumulated depreciation) in a broad range of capital assets, including equipment, buildings, electric and water lines. This amount represents a net increase (including additions and deductions) of \$1,949 over last year. This year's major capital asset additions included extensions to the distribution system.

Long-term Debt

At year-end the Utilities had no outstanding debt.

Economic Factors Bearing on the Utilities' Future

The Utilities' largest vulnerability for sizeable capital project is a generator. There are two options if one of the three generators expires. The Utilities can purchase power at a higher rate or buy a new engine. The Board has decided when this happens to have an engineering study done to investigate what option would be best for the city.

For the next fiscal year, the City and Utility are jointly financing and constructing a 40' x 72' utility building. Approximate cost is \$31,000 to be split between the City of McGregor and McGregor Municipal Utilities.

In June 2005, the Utility joined UMPMA. UMPMA is the Upper Midwest Municipal Power Agency formed by municipal utilities working together that have determined it is in the best interest of the members to create an interstate joint action agency for the purpose of cooperating in the purchase of electric power and energy, generation and transmission, particularly in view of the challenges presented by the radical restructuring of the regional electric market.

In the future, the Utilities will be joining the two water systems (Well 6 & 7). The Utilities has no plans to issue additional debt to finance this project. Rather, the Board has decided to wait for the city to raise enough money through the TIFF district tax in order to fund the connection.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and investors, and creditors with a general overview of the Utilities' finances and to demonstrate the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the McGregor Utilities office, 126 First Street, McGregor, IA 52157.

BASIC FINANCIAL STATEMENTS

EXHIBIT "A"**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****STATEMENT OF NET ASSETS****JUNE 30, 2005**

	Business Type Activities -----
Assets	
Cash	\$ 183,309
Receivables:	
Customer accounts	
Net of allowance for doubtful accounts of \$6,996	93,878
Custodial accounts	30,233
Inventories	113,004
Restricted assets:	
Cash	91,299
Capital assets (net of accumulated depreciation)	227,760

Total Assets	\$ 739,483

Liabilities	
Current Liabilities:	
Accounts payable	\$ 11,760
Flex spending	881
Customer deposits (payable from restricted assets)	5,922
Custodial accounts	30,233

Total Liabilities	\$ 48,796

Net Assets	
Invested in capital assets, net of related debt	\$ 227,760
Unrestricted	462,927

Total Net Assets	\$ 690,687
	=====

See notes to financial statements.

EXHIBIT "B"**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****STATEMENT OF ACTIVITIES****YEAR ENDED JUNE 30, 2005**

	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions	Total
	-----	-----	-----	-----	-----
<u>Function/Program:</u>					
Business Type Activities:					
Electric	\$ 564,208	\$ 568,517	\$ ---	\$ ---	\$ 4,309
Water	67,643	56,162	---	---	(11,481)
	-----	-----	-----	-----	-----
Total Business Type Activities	\$ 631,851	\$ 624,679	\$ ---	\$ ---	\$ (7,172)
	-----	-----	-----	-----	-----
General Revenues:					
Unrestricted investment earnings					\$ 4,592

Total General Revenues					\$ 4,592

Change in net assets					\$ (2,580)

Net assets – beginning of year					\$693,267

Net assets – end of year					\$690,687
					=====

See notes to financial statements.

EXHIBIT "C"**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****STATEMENT OF NET ASSETS
PROPRIETARY FUNDS****JUNE 30, 2005**

	Proprietary Funds		
	Electric	Water	Total
Assets			
Cash	\$ 108,824	\$ 74,485	\$ 183,309
Receivables			
Customer accounts	85,298	8,580	93,878
Net of allowance for doubtful account of \$6,011 and \$985 respectively			
Custodial accounts	---	30,233	30,233
Inventories	89,414	23,590	113,004
Restricted assets:			
Cash	91,299	---	91,299
Capital assets (net of accumulated depreciation)	152,137	75,623	227,760
	-----	-----	-----
Total Assets	\$ 526,972	\$ 212,511	\$ 739,483
	-----	-----	-----
Liabilities			
Accounts payable	\$ 6,627	\$ 5,133	\$ 11,760
Flex spending	881	---	881
Payable from restricted assets:			
Customer deposits	5,922	---	5,922
Custodial accounts	---	30,233	30,233
	-----	-----	-----
Total Liabilities	\$ 13,430	\$ 35,366	\$ 48,796
	-----	-----	-----
Net Assets			
Invested in capital assets, net of related debt	\$ 152,137	\$ 75,623	\$ 227,760
Unrestricted			
Undesignated	283,333	101,522	384,855
Board designated	78,072	---	78,072
	-----	-----	-----
Total Net Assets	\$ 513,542	\$ 177,145	\$ 690,687
	=====	=====	=====

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005**

	Proprietary Funds		
	Electric	Water	Total
Operating Revenue			
Charges for service	\$ 562,292	\$ 53,978	\$ 616,270
Miscellaneous	6,225	2,184	8,409
Total Operating Revenue	\$ 568,517	\$ 56,162	\$ 624,679
Operating Expenses:			
Production Expenses:			
Supervision and labor	\$ 39,974	\$ 4,582	\$ 44,556
Generator and boiler fuel	16,915	329	17,244
Power and pumping	---	5,868	5,868
Chemicals	---	1,110	1,110
Payroll taxes and IPERS	7,332	638	7,970
Sales and use taxes	24,639	3,434	28,073
Insurance - employee medical	8,343	580	8,923
Insurance - general	7,252	3,118	10,370
Supplies	4,120	450	4,570
Maintenance material and labor	7,210	3,428	10,638
Miscellaneous	1,802	577	2,379
Purchase electrical power	293,627	---	293,627
Total Production Expenses	\$ 411,214	\$ 24,114	\$ 435,328
Distribution Expenses:			
Supervision and labor	\$ 20,880	\$ 3,486	\$ 24,366
Truck expenses	6,461	1,638	8,099
Payroll taxes and IPERS	3,421	485	3,906
Insurance - employee medical	3,893	441	4,334
Insurance - general	4,835	779	5,614
Supplies	11,507	3,968	15,475
Maintenance material and labor	2,111	7,651	9,762
Miscellaneous	3,444	771	4,215
Water lab tests	---	832	832
Total Distribution Expenses	\$ 56,552	\$ 20,051	\$ 76,603

See notes to financial statements.

EXHIBIT "D" (continued)**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005**

	Proprietary Funds		
	Electric	Water	Total
Operating Expenses: (Continued)			
Accounting and Collection Expenses:			
Salary and wages	\$ 41,929	\$ 7,250	\$ 49,179
Payroll taxes and IPERS	5,539	1,009	6,548
Insurance - employee medical	6,303	918	7,221
Bad debts	1,043	(5)	1,038
Office supplies	4,780	1,267	6,047
Miscellaneous	1,922	763	2,685
	-----	-----	-----
Total Accounting and Collection Expenses	\$ 61,516	\$ 11,202	\$ 72,718
	-----	-----	-----
Administrative and General:			
Trustee and treasurer fees	\$ 725	\$ 725	\$ 1,450
Professional services & publications expenses	11,829	2,653	14,482
Supplies and miscellaneous	1,265	1,115	2,380
City - County garage	1,073	---	1,073
Energy efficiency program	768	---	768
	-----	-----	-----
Total Administrative and General Expenses	\$ 15,660	\$ 4,493	\$ 20,153
	-----	-----	-----
Total Operating Expenses Before Depreciation	\$ 544,942	\$ 59,860	\$ 604,802
Depreciation	19,203	7,783	26,986
	-----	-----	-----
Net Operating Expenses	\$ 564,145	\$ 67,643	\$ 631,788
	-----	-----	-----
Net Operating Revenue (Expense)	\$ 4,372	\$ (11,481)	\$ (7,109)
	-----	-----	-----
Non-Operating Revenue (Expenses):			
Interest income	\$ 3,538	\$ 1,054	\$ 4,592
Interest expense	(63)	---	(63)
	-----	-----	-----
Total Non-Operating Revenue (Expense)	\$ 3,475	\$ 1,054	\$ 4,529
	-----	-----	-----
Change in Net Assets	\$ 7,847	\$ (10,427)	\$ (2,580)
Net Assets Beginning of Year	505,695	187,572	693,267
	-----	-----	-----
Net Assets End of Year	\$ 513,542	\$ 177,145	\$ 690,687
	=====	=====	=====

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005**

	Proprietary Funds		
	Electric	Water	Total
Cash Flows From Operating Activities:			
Cash received from customers and users	\$ 552,264	\$ 53,130	\$ 605,394
Cash received from other revenues	6,225	2,184	8,409
Cash paid for personal services	(142,410)	(20,402)	(162,812)
Cash paid to suppliers	(120,985)	(37,551)	(158,536)
Cash paid for purchased power	(293,627)	---	(293,627)
Net Cash Provided (Used) by Operating Activities	\$ 1,467	\$ (2,639)	\$ (1,172)
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets	\$ (185)	\$ (1,764)	\$ (1,949)
Interest paid on meter deposits	(63)	---	(63)
Net Cash Used for Capital and Related Financing Activities	\$ (248)	\$ (1,764)	\$ (2,012)
Cash Flows From Investing Activities:			
Interest on investments	\$ 3,538	\$ 1,054	\$ 4,592
Net Cash Provided by Investing Activities	\$ 3,538	\$ 1,054	\$ 4,592
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 4,757	\$ (3,349)	\$ 1,408
Cash and Cash Equivalents Beginning of Year	195,366	77,834	273,200
Cash and Cash Equivalents End of Year	\$ 200,123	\$ 74,485	\$ 274,608

See notes to financial statements.

EXHIBIT "E" (continued)**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005**

	Proprietary Funds		
	Electric	Water	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ 4,372	\$ (11,481)	\$ (7,109)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	19,203	7,783	26,986
Allowance for doubtful accounts	(606)	(223)	(829)
Decrease in customer accounts receivable	(10,495)	47	(10,448)
(Increase) in custodial account	---	(2,565)	(2,565)
(Increase) decrease in inventories, at cost	(11,184)	(613)	(11,797)
Increase (decrease) in accounts payable	1,034	1,848	2,882
Increase (decrease) flex spending	(660)	---	(660)
Increase in customer deposits	(197)	---	(197)
Increase (Decrease) in custodial accounts	---	2,565	2,565
Net Cash Provided by Operating Activities	\$ 1,467	\$ (2,639)	\$ (1,172)
Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets:			
Current Assets:			
Cash	\$ 108,824	\$ 74,485	\$ 183,309
Restricted Assets:			
Cash:			
Revenue contingency bond	78,072	---	78,072
Customer deposits	5,923	---	5,923
Special projects	7,304	---	7,304
Cash and Cash Equivalents at Year End	\$ 200,123	\$ 74,485	\$ 274,608

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Note 1 - Summary of Significant Accounting Policies:

The McGregor Municipal Utilities (the Utility) are separate enterprise funds of the City of McGregor. The Utility accounts for the cost of operations on a continuing basis.

The Utility provides electricity and water to properties within the City of McGregor and is managed by the Board of Trustees, who are appointed by the mayor and approved by the City Council.

The financial statements of the McGregor Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principals (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the McGregor Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet these criteria.

B. Basis of Presentation

Proprietary Fund Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the proprietary funds. For the most part, the effect of interfund activity has been removed from these statements. Business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Utility's proprietary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Interest earnings and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the Utility's water system.

The Electric Fund is used to account for the operation and maintenance of the Utility's electric system.

C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are capitalized in proprietary funds. Proceeds of general long-term debt are reported as other financing sources.

The proprietary funds of the Utility apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Estimates - The preparation of financial statements in conformity with United States of America generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash, Pooled Investments and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Customer Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed.

The Utility uses the allowance method of accounting for bad debts, which is a percentage of the accounts receivable. Bad debts charged (recoveries) against the Electric and Water Funds for the year ended June 30, 2005 were \$1,043 and \$(5) respectively.

Custodial Accounts Receivable - Custodial accounts receivable consists of the Utility's collection of sewer, garbage and storm sewer fees for the city, which the Utility will remit to the city.

Inventories – Inventories consist of supplies, fuel oil and materials for distribution repair. Extensions are recognized as expense or capital improvements at the time they are put into service. Inventory items are valued at the lower of cost or market, using the first-in, first-out method.

Restricted Assets – Board designated funds set aside for the repair or replacement of the Utility's electric generators. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers or special projects.

Capital Assets – Capital assets include property, equipment and vehicles. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	10-33 years
Generators and Equipment	8-25 years
Distribution System	20-25 years
Vehicles	5-10 years
Office Equipment	10 years
Interconnect	25 years

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Compensated Absences – Employees accumulate sick time and vacation for subsequent use. These accumulations are not considered material and are not recognized as expenditures by the Utility until used. The Utility's policy provides for payout of accumulated vacation and prohibits payoff of accumulated sick time at termination of employment. The Utility's approximate liability for earned vacation payments to employees at June 30, 2005 was \$2,994 for Electric Fund and \$998 for Water Fund. The liability has been computed based on rates of pay at June 30, 2005.

Fund Equity – In the proprietary fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the business type activities function.

Note 2 - Cash and Pooled Investments:

The Utility's deposits in banks at June 30, 2005, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Note 3 – Capital Assets:

Capital assets activity for the year ended June 30, 2005 was as follows:

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	-----	-----	-----	-----
Business Type Activities:				
Capital assets not being depreciated:				
Land	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Total Capital Assets Not Being Depreciated	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Capital Assets Being Depreciated:				
Buildings	\$ 59,692	\$ ---	\$ ---	\$ 59,692
Office equipment	23,779	---	---	23,779
Generators and equipment	632,399	---	---	632,399
Pump and equipment	16,081	---	---	16,081
Chlorinator	3,960	---	---	3,960
Distribution system	554,296	1,949	---	556,245
Interconnect	64,809	---	---	64,809
Vehicles	72,614	---	---	72,614
Well	12,005	---	---	12,005
Reservoir	44,409	---	---	44,409
	-----	-----	-----	-----
Total Capital Assets Being Depreciated	\$ 1,484,044	\$ 1,949	\$ ---	\$ 1,485,993
	-----	-----	-----	-----
Less Accumulated Depreciation For:				
Buildings	\$ 48,202	\$ 703	\$ ---	\$ 48,905
Office equipment	23,779	---	---	23,779
Generators and equipment	583,398	3,535	---	586,933
Pump and equipment	16,081	---	---	16,081
Chlorinator	3,960	---	---	3,960
Distribution system	414,147	13,630	---	427,777
Interconnect	64,809	---	---	64,809
Vehicles	53,230	6,400	---	59,630
Well	9,057	765	---	9,822
Reservoir	15,724	1,953	---	17,677
	-----	-----	-----	-----
Total Accumulated Depreciation	\$ 1,232,387	\$ 26,986	\$ ---	\$ 1,259,373
	-----	-----	-----	-----
Total Capital Assets Being Depreciated, Net	\$ 251,657	\$ 25,037	\$ ---	\$ 226,620
	-----	-----	-----	-----
Business Type Activities Capital Assets, Net	\$ 252,797	\$ 25,037	\$ ---	\$ 227,760
	=====	=====	=====	=====

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Note 3 – Capital Assets: (Continued)

Depreciation expense was charged to functions of the primary proprietary funds as follows:

Business type activities:

Water	\$ 7,783
Electric	19,203

Total depreciation expense – business type activities	\$ 26,986
	=====

Note 4 – Pension and Retirement Benefits:

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$7,145, \$7,007, and \$6,522, respectively, equal to the required contributions for each year.

Note 5 – Risk Management:

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Note 6 – Firm Power Agreement:

On November 20, 1996, the Utility entered into a “Firm Power Agreement” with Dairyland Power Cooperative. Under the terms of the agreement, the Utility will purchase from Dairyland Power Cooperative (rather than generate) the majority of its electrical energy. This Agreement shall become effective on April 1, 1997, and shall remain in effect through March 31, 2007, unless sooner terminated as provided in Section 3.03 of this November 20, 1996, Agreement. This Agreement shall renew for an intermediate term thereafter unless terminated by either party by written notice of at least 24 months to the other party. The Utility paid \$293,627 for purchased power under this agreement for the year ended June 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) –
PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2005

	Proprietary Funds Actual	Budgeted Amounts		Final to Actual Variance
	-----	-----	-----	-----
Receipts:				
Charges for services	\$ 613,804	\$ 640,930	\$ 640,930	\$ (27,126)
Investment earnings	4,592	---	---	4,592
Disbursements:				
Business type activities	634,733	627,900	627,900	(6,833)
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (16,337)	\$ 13,030	\$ 13,030	\$ (29,367)
Balances Beginning of Year	693,267	693,267	693,267	---
Balances End of Year	\$ 676,930	\$ 706,297	\$ 706,297	\$ (29,367)
	=====	=====	=====	=====

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005**

	Proprietary Funds Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 618,396	\$ 10,875	\$ 629,271
Expenditures/Expenses	634,733	(2,882)	631,851
Net	\$ (16,337)	\$ 13,757	\$ (2,580)
Beginning Fund Balances/Net Assets	693,267	---	693,267
Ending Fund Balances/Net Assets	\$ 676,930	\$ 13,757	\$ 690,687

See accompanying independent auditor's reports.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005**

In accordance with the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. Although the budget document presents function disbursements by fund, the legal level of control is at the city wide aggregated function level, not by fund.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the business type activities function.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE "1"**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****ELECTRIC FUND****SALES ANALYSIS FOR THE YEAR ENDED
JUNE 30, 2005 – CASH BASIS WITH COMPARATIVE
FIGURES FOR THE THREE PREVIOUS YEARS
UNAUDITED**

	Year Ended			
	2005	2004	2003	2002
KWH Sold:				
Residential	3,102,636 KWH	3,150,104 KWH	3,136,888 KWH	2,930,868 KWH
Industrial	1,703,760 KWH	1,871,920 KWH	2,058,840 KWH	2,031,960 KWH
Commercial	1,362,512 KWH	1,472,208 KWH	1,412,108 KWH	1,295,123 KWH
Public authority	308,302 KWH	307,641 KWH	294,901 KWH	280,751 KWH
Others	271,169 KWH	271,767 KWH	252,650 KWH	244,378 KWH
Street lights	131,549 KWH	135,868 KWH	136,114 KWH	116,139 KWH
Total	6,879,928 KWH	7,209,508 KWH	7,291,501 KWH	6,899,219 KWH
KWH Sold: (Percent)				
Residential	45.11%	43.69%	43.02%	42.49%
Industrial	24.76%	25.96%	28.24%	29.45%
Commercial	19.80%	20.42%	19.37%	18.77%
Public authority	4.48%	4.27%	4.04%	4.07%
Others	3.94%	3.77%	3.46%	3.54%
Street lights	1.91%	1.88%	1.87%	1.68%
Total	100.00%	100.00%	100.00%	100.00%
Sales:				
Residential	\$ 274,092	\$ 243,218	\$ 219,422	\$ 213,989
Industrial	134,344	132,419	125,203	121,253
Commercial	111,471	106,642	90,855	81,065
Public authority	22,433	20,258	17,320	16,059
Other	16,418	17,953	14,899	13,980
Street lights	9,759	8,997	7,869	6,446
Total	\$ 568,517	\$ 529,487	\$ 475,568	\$ 452,792
Sales: (Percent)				
Residential	48.20%	45.93%	45.15%	47.26%
Industrial	23.63%	25.01%	26.33%	26.78%
Commercial	19.61%	20.14%	19.10%	17.90%
Public authority	3.95%	3.83%	3.64%	3.55%
Others	2.89%	3.39%	3.13%	3.09%
Street lights	1.72%	1.70%	1.65%	1.42%
Total	100.00%	100.00%	100.00%	100.00%
Selling Price Per KWH:				
Residential	\$.08834	\$.07721	\$.06995	\$.07301
Industrial	.07885	.07074	.06081	.05967
Commercial	.08181	.07244	.06434	.06259
Public authority	.07276	.06585	.05873	.05720
Others	.06055	.06606	.05897	.05721
Street lights	.07419	.06622	.05781	.05550
Average all types	\$.08263	\$.07344	\$.06522	\$.06563

See accompanying independent auditor's report

SCHEDULE "2"**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****ELECTRIC FUND****COMPARATIVE STATISTICAL DATA – KWH PRODUCED AND PURCHASED
AND KWH SOLD AND LOST****UNAUDITED**

	Year Ended			
	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
KWH produced and purchased	7,235,521	7,476,293	7,656,018	7,208,949
Less: sold	6,879,928	7,209,508	7,291,501	6,899,219
Balance Unsold	355,593	266,785	364,517	309,730
Percent Sold	95.09%	96.43%	95.24%	95.70%
Unsold Balance Used as Follows:				
Station service	121,400	119,070	110,554	116,460
Line loss and unaccounted for	234,193	147,715	253,963	193,270
	355,593	266,785	364,517	309,730
Line Loss Percentage	3.24%	1.98%	3.32%	2.68%

See accompanying independent auditor's report

SCHEDULE "3"**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****WATER FUND****COMPARATIVE STATISTICAL DATA
WATER SOLD AND WATER PUMPED****UNAUDITED**

	Year Ended				
	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001
	-----	-----	-----	-----	-----
Cubic feet of water pumped	5,872,901	5,776,484	5,143,904	5,120,134	5,366,417
Less: metered sales	3,289,339	3,561,883	3,447,319	3,380,732	3,371,937
	-----	-----	-----	-----	-----
Balance - (unmetered sales & unsold water)	2,583,562	2,214,601	1,696,585	1,739,402	1,994,480
	=====	=====	=====	=====	=====
Percent of metered sales to water pumped	56.01%	61.66%	67.02%	66.03%	62.83%
	=====	=====	=====	=====	=====

See accompanying independent auditor's report

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
McGregor Municipal Utilities
McGregor, Iowa

We have audited the financial statements of the McGregor Municipal Utilities of the City of McGregor, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 18, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our report expressed unqualified opinions on the financial statements and included a disclaimer of opinion on the required and other supplementary information.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McGregor Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect McGregor Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described in I-A-05 is also a material weakness. This reportable condition and material weakness is a repeat finding from prior years' audits.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McGregor Municipal Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the McGregor Municipal Utilities' operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the entities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the McGregor Municipal Utilities of the City of McGregor and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the McGregor Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa
August 18, 2005

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted

REPORTABLE CONDITIONS:

- I-A-05 **Segregation of Duties** – The size of the Utility’s accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances, and the Board of Trustees remain involved in the financial affairs of the Utility to provide oversight and independent review functions.

Response – We will consider this.

Conclusion – Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-05 **Official Depositories** – A resolution naming all official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

- II-B-05 **Certified Budget** – Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- II-C-05 **Questionable Disbursements** – We noted no expenditures for parties, banquets or other entertainment for utility employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.
- II-D-05 **Travel Expense** – No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-E-05 **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.
- II-F-05 **Bond Coverage** – Surety bond coverage of city officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes which were not.
- II-H-05 **Deposits and Investments** – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility’s investment policy.